

## MEMORANDUM

**To:** Audit Committee Members:  
Mr. Eugene Pettis, Chairman  
Ms. Valerie Boyd, Member  
Mr. William E. Graham, Member  
Ms. Betsy Krant, Member  
Mr. Frank Williamson, Jr., Member  
Ms. Barbara A. Markham, Ex Officio  
Mr. James D. Yager, Ex Officio  
Carolyn Williams, Director, Office of Supplier Diversity and Outreach

**From:** Allen Vann, Inspector General, Office of Inspector General

**Date:** September 11, 1996

**Subject:** Audit of M/WBE Application for Certification for Complete Services -  
Audit # 96-04

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## INTRODUCTION

This report presents the result of our audit of the M/WBE Application for Certification, (the "M/WBE Application") supporting documentation, and other related information as submitted by Complete Services. Complete Services is a small sole proprietorship started in 1979 and is owned and operated by Nita Salmon (the "Owner"), a white female. Primary business activities include interior and exterior cleaning and lawn care. Gross revenues for the last three years ranged from \$5,389 to \$9,850. The Owner submitted an Application for M/WBE Certification to the District on June 11, 1996, and received approval on June 12, 1996. Our audit was performed pursuant to a request from the District's Director of Supplier Diversity and Outreach dated August 9, 1996.

## **OBJECTIVES**

The purpose of our audit was to determine if Complete Services meets the criteria for M/WBE eligibility.

This audit was conducted pursuant to the Office of Inspector General's responsibilities and authority set forth in 20.055 F.S. Our audit was conducted according to *Generally Accepted Government Auditing Standards (GAGAS)* and included such tests of Complete Service's records and other auditing procedures we considered necessary under the circumstances. We examined the M/WBE Application submitted by Complete Services, a proposal submitted by Palmdale Oil Co., Inc. (Palmdale) in response to (RFP# C-8550 Operations of Navigational Lock Structures) in which Complete Services was listed as a minority subcontractor (see Background below). The proposal included relevant financial and other information. We also met with Palmdale's president and owner, Complete Services' owner and primary employee, and District staff personnel.

The auditors did not discuss specific findings with Complete Services. However, audit matters were discussed to the extent necessary to obtain a full understanding of the items in the certification documents and evidentiary documents furnished in support of the submission.

## **BACKGROUND**

The South Florida Water Management District (the "District") is currently contracting the locktender services to Palmdale, which is performing under a three-year contract expiring September 30, 1996.

Procurement and Contracts Division issued Request for Proposal (RFP) C-8550, on May 8, 1996, to procure locktender services for the next three-year period. The District received four responses: Palmdale, Everglades Management Services, Inc. (EMS), Hydro Science, and Edna Hines. Palmdale's proposal for C-8550 included subcontracting the cleaning and mowing portion of the locktender contract work to Complete Services for \$60,000 (per year) representing 10% of the total bid amount of \$599,755 (per year). The proposal review committee, consisting of three Regional Directors from the Operations and Maintenance Department, one Civil Engineer from the Engineering & Project Management Division, and one Governmental Representative from the Okeechobee Service Center, ranked Palmdale and EMS number 1 and number 2, respectively. All respondents to the RFP were informed on June 21, 1996, of the decision to select Palmdale as the contractor.

EMS filed a written Notice of Protest on June 26, 1996, and a Formal Written Protest on July 5, 1996. On July 11, 1996, the District's Governing Board directed negotiations with Palmdale and EMS for a bifurcated contract. This directive prompted Palmdale to file a Notice of Protest on July 12, 1996, followed by a Formal Written Protest on July 22, 1996. Items of "Disputed Issues of Material Fact" in both protests cited allegations of fraud with regard to their competitor's qualifying for points they received for meeting the minimum M/WBE participation goal, thereby, receiving an unfair competitive advantage. We have conducted a parallel audit addressing Palmdale's assertions regarding EMS's M/WBE status.

### **Criteria**

The authority to conduct an examination of an M/WBE Application is described in the signed affidavit included with the Application. The affidavit states:

. . . the undersigned agrees to provide the Certifying Agency with current, complete and accurate information regarding THIS APPLICATION, its attachments, or any project or contracts issued by the organizations or corporations utilizing the AGENCY for their own minority/women or disadvantaged business enterprise procurement and/or construction programs. The undersigned further agrees that, as part of this certification procedure, the AGENCY may freely contact any person or organization named in this application to verify statements made in THIS APPLICATION and/or secure additional information or data required to grant to, or withhold from, the applicant company certification as an MBE, WBE, or DBE. The undersigned understands and agrees that failure to submit required materials and/or to consent to interview(s), audit(s), and /or examination(s) will be grounds for immediate rejection of the application for certification or recertification.

In addition, authority to periodically review a firm's continued M/WBE eligibility is stated in the M/WBE Certification approval letter issued by the District.

On May 24, 1991, the District established and issued MBE Certification Guidelines (the "Guidelines") which specify certification criteria. The criteria were established based on the standard definition for minority and women-owned business enterprises as contained in the Florida Small and Minority Business Assistance Act," [ 288.703 F.S.] and the District's Procurement and Contracting Policy.

## **FINDINGS**

Our assessment of Complete Services' eligibility as an M/WBE firm according to the specific elements of the District's current Guidelines is as follows:

### **Minority Business Enterprise:**

a small business concern which is domiciled in Florida and which is at least 51 percent owned by minority persons and whose management and daily operations are controlled by such persons.

We found that Complete Services is a small business concern domiciled in Florida and is 100% owned by a minority person who manages, owns, and controls its daily operations.

### **Minority Persons:**

permanent residents of Florida who are members of minority groups as noted in Sections 288.702 and 288.703, Florida Statutes.

The owner is a white female, which meets the qualification of the Guidelines.

### **Small Business:**

an independently owned and operated business concern which employs 25 or fewer permanent full-time employees, and which has a net worth of not more than \$1 million.

We found that Complete Services is an independently owned and operated business concern with one primary employee (and sometimes part-time employees) with a net worth of less than \$1 million.

### **Organized to engage in commercial transactions:**

the applicant company must be organized to perform a commercially useful function according to the customs and practices within their respective industry. A business concern is considered to perform a commercially useful function if it assumes responsibility for the performance, management and supervision of a distinct element of work on a contract and/or the business assumes the actual and contractual responsibility for the provision of materials and supplies.

Complete Services performs interior and exterior cleaning, and lawn maintenance, which are commercially useful services.

**Domiciled in Florida:**

the applicant company's primary residence must be within the State of Florida.

The addresses on the owners Federal tax returns show that she has been a resident of the State of Florida for many years. Complete Services's residence is within the State of Florida.

**Ownership, Management and Control**

the ownership and control by minorities and/or women shall be real, substantial and continuing and shall go beyond the pro forma ownership of the firm as reflected in its ownership documents. The minority and/or women owner shall enjoy the customary incidents of ownership and shall share in the risks and profits commensurate with their ownership interests as demonstrated by the substance rather than the form of arrangements. All securities which constitute ownership and/or control of a corporation for purposes of establishing it as an MBE shall be held directly by minorities and/or women. The contributions of capital or expertise by the minority and/or women owner to acquire their interest in the firm shall be real and substantial. Examples of insufficient contributions include a promise to contribute capital, a note payable to the firm or its owners who are not MBE's or the mere participation as an employee, rather than a manager.

We found that Complete Services is owned and controlled by a white female who is the sole owner, investor, risk taker, and profit benefactor, both in form and in substance. The business is operated out of the owner's home where all the records are also maintained. The information on the Schedule C Forms (Profit or Loss from Business) from the Owner's Federal Tax Returns for the last three years materially matched that provided on the M/WBE Application. Although only the last three years tax return information is required for the M/WBE Application, tax return information was made available back to 1986 providing evidence that this business has been a going concern for a considerable number of years and was established prior to the owners employment at Palmdale or UST, Inc.

## **Independence and Control**

An eligible minority business shall be an independent business. In determining this, the District shall consider the date the business was established, tax returns, the adequacy of its resources, and the degree to which financial, equipment leasing and other relationships with non-minority firms vary from industry practice.

Complete Services is not dependent on any non-minority firm, including Palmdale, for its resources, management, marketing, financing, or continued existence. The Owner is currently an employee of Palmdale performing bookkeeping services. She is also the vice president and former employee of UST, Inc. in which the owner and operator of Palmdale has a significant financial interest. However, we found evidence that there were other customers not related to Palmdale or UST, Inc. that comprised a significant portion of Complete Services' revenues. In essence, Complete Services is a small part-time business venture of the Owner and is operated independently of Palmdale. The type of work performed by Complete Services is dissimilar from the owner's activities that she performs for Palmdale or UST. Nothing came to our attention during our review that would suggest that the owner is not independent or lacks control over her business.

## **Day-to-Day Management**

the minority and or woman owner shall possess the power or cause the direction of the management and policy of the firm to make day-to-day, as well as major decisions on matters of management, policy and operations. The minority/woman business enterprise shall not be subject to any formal or informal restrictions which limit the customary discretion of the minority and/or women owner. There shall be no restrictions through by-law provisions, or other provisions for cumulative voting rights or otherwise that prevent the minority or woman owner from making business decisions for the firm.

Complete Services day-to-day management, policy and decisions are made by the owner and her primary employee. Although the Owner works as an employee of Palmdale, financial records indicate that Palmdale is not involved in Complete Services business operations. The business is operated out of the owner's residence where all the records are also maintained. The owner's sister is the primary employee who performs a significant portion of the field work.

**Other Applicable Considerations:**

the business shall cooperate with the District in supplying additional information which may be requested in order to make an M/WBE eligibility determination.

Complete Services fully cooperated in furnishing us with requested material necessary to complete our review.

**CONCLUSION**

Although the owner of Complete Services has other non arms length relationships with Palmdale and its principal owner, Palmdale is not involved in the ownership, risks, rewards, management and day-to-day operations nor has any investment in Complete Services, which is the sole business proprietorship of Nita Salmon. Complete Services meets all the criteria established by the MBE Certification Guidelines. Thus, Complete Services, in our opinion, meets the District's criteria for an M/WBE business enterprise.